

ECONOMIC PULSE

A MONTHLY REPORT ON MARYLAND'S ECONOMY

HIGHLIGHTS

Summary

The U.S. Bureau of Economic Analysis reported that the nation's gross domestic product rose at an annual rate of only 3 percent in the second quarter of this year, down from 4.5 percent in the first quarter. The July employment report added fuel to concerns about a weakening U.S. economy. Only 32,000 net new jobs were added — less than half the increase in June and well below the robust gains in the previous three months. Despite the recent data, the Federal Reserve moved to raise its short-term interest rate target. Policymakers at the Fed suggested that the signs of current weakness in the economy were temporary and that the economy would improve later this year.

The state's employment in June was up 1.4 percent over the year — an addition of 35,000 net new jobs. Maryland's job growth has outpaced the U.S. for every month of this year thus far. The leisure and hospitality industry continues to grow at a robust rate.

U.S. Job Market Weakens

The U.S. added only 32,000 net new jobs in July, well below the expectations of many analysts.

Personal Income Continues to Improve

Maryland's personal income was up nearly 6 percent in the first quarter of 2004 from the same period a year ago. Nationally, personal income rose about 5 percent.

Federal Reserve Raises Interest Rate

The Federal Reserve raised its short-term interest rate target to 1.5 percent in August, up from 1.25 percent — the second increase this year.

State's Leisure and Hospitality Leads in Job Growth

Employment in the state's leisure and hospitality sector grew at 5.2 percent in June, more than double the increase for the U.S.

Unemployment Rate

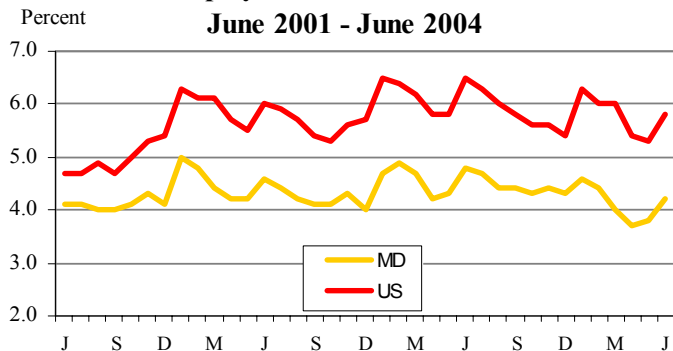
The state's unemployment rate in June was 4.2 percent, down from 4.8 percent for the same period a year ago. For the first half of the year, Maryland's unemployment rate was 4.1 percent. Maryland's seasonally adjusted unemployment rate of 3.9 percent was unchanged from the previous month and was down by a little more than half a percentage point over the year. The state's unemployment rate remains well below the national average.

Unemployment Rates (Percent)

	Not Seasonally Adjusted		Seasonally Adjusted	
	MD	U.S.	MD	U.S.
Jun 2004	4.2	5.8	3.9	5.6
May 2004	3.8	5.3	3.9	5.6
Jun 2003	4.8	6.5	4.5	6.3

Source: U.S. Bureau of Labor Statistics

Unemployment Rate, MD vs. U.S.
June 2001 - June 2004



Source: Maryland Dept. of Labor, Licensing & Regulation and U.S. Bureau of Labor Statistics

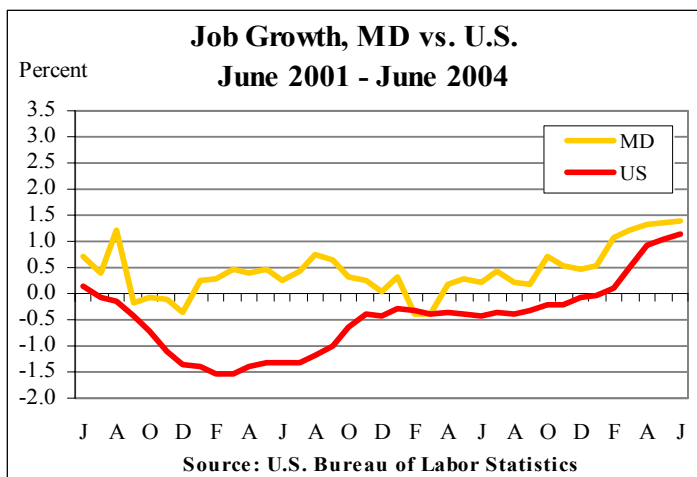
The U.S. unemployment rate stood at 5.8 percent in June, down from 6.5 for the same period a year ago. The seasonally adjusted U.S. unemployment rate, at 5.6 percent in June, has been roughly the same since December 2003. Over the year, the seasonally adjusted rate was down from 6.3 percent.

Robert L. Ehrlich, Jr.
Governor
Michael S. Steele
Lt. Governor
Aris Melissaratos
Secretary

Jobs and Sectors

Jobs

From June 2003 to June 2004 the state added about 35,000 net new jobs — a growth rate of 1.4 percent. For the first six months of this year the state has, on average, gained more than 28,000 jobs compared to the same period a year ago.



Employment in the leisure and hospitality industry continues to lead the other sectors in growth. Job growth in education and health services remained strong, as well.

The year-over-year growth in U.S. employment continues to accelerate slowly. As a result, the difference between the job growth rates for Maryland and the nation is closing. Earlier this year the gap between the employment growth rates

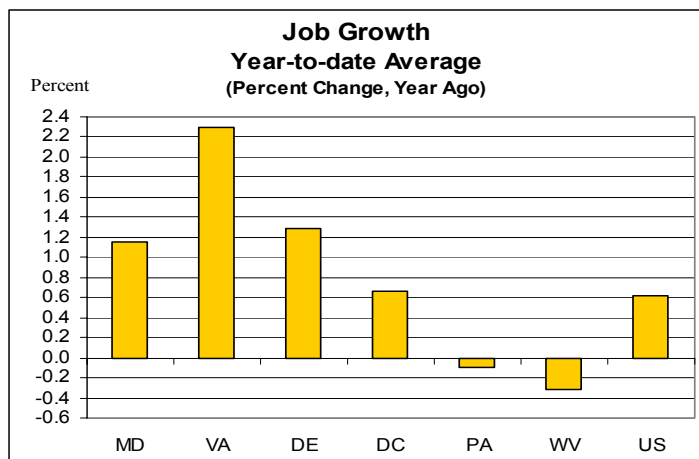
Maryland vs. U.S. Job Growth Rate (Percent Change, Year Ago)

Month	MD	U.S.
Jun-03	0.2	-0.4
Jul-03	0.4	-0.4
Aug-03	0.2	-0.4
Sep-03	0.2	-0.3
Oct-03	0.7	-0.2
Nov-03	0.5	-0.2
Dec-03	0.5	-0.1
Jan-04	0.5	0.0
Feb-04	1.1	0.1
Mar-04	1.2	0.5
Apr-04	1.3	0.9
May-04	1.4	1.0
Jun-04	1.4	1.1

was about one percentage point. In June, although the state's job growth rate continues to outpace the U.S., the difference has been cut to less than half a percentage point.

Job Growth Ranking

The state's job growth rate of 1.4 percent for June resulted in a ranking of 18th in the nation. For the first six months of this year, the state's average job growth rate stood at 1.2 percent, yielding a ranking of 18th as well.



For the first six months of this year, the average job growth rates and rankings for other selected states were: Virginia, 2nd (2.3%); Delaware, 13th (1.3%); the District of Columbia, 30th (0.7%); Pennsylvania, 44th (-0.1%); and West Virginia, 47th (-0.3%). The remaining top ten states in job growth were located primarily in the West and included Nevada (4.4%), Arizona (2.3%), Florida (2.1%), Hawaii (2.1%), Wyoming (2.0%), Idaho (1.8%), New Mexico (1.6%), Washington (1.5%), and Utah (1.5%). Nationally, the job growth rate was 0.6 percent.

Leisure and Hospitality

Employment in the state's tourism-related industry continues to outpace all other major sectors in job growth, adding over 12,000 net new jobs during the June 2003 to June 2004 period — a 5.2 percent increase. Food services (including restaurants) and drinking places accounted for the bulk of the increase, adding 9,200 new jobs. The job growth rate for the nation's leisure and hospitality sector also remained relatively strong, rising 2.1 percent in June.

Other tourism-related indicators were positive, as well. Hotel occupancy rates increased from 73 percent to 76 percent

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Jobs and Sectors (continued from page 2)

from June 2003 to June 2004. Visitor volume at state welcome centers showed a gain of nearly 4 percent over the year. Tax receipts, however, yielded a mixed result. Amusement and admission tax revenues fell 9 percent over the year, while hotel/motel tax receipts were up 17 percent.

Health Services

Health care (including social assistance) added 6,000 net new jobs over the year, an increase of 2.1 percent. Within the health care sector, hospitals added 3,800 jobs (up 4.2 percent) and health care service providers generated 1,400 net new jobs (up 1.6 percent). Nursing and resident care facilities contributed 600 jobs — an increase of 1.0 percent.

Retail Sales

Employment in the state's retail trade sector was up 0.9 percent from June 2003 to June 2004, adding 2,700 net new jobs. Sectors generating net new jobs included motor vehicle and parts dealers (up 1.3 percent), grocery stores (up 2.2 percent), clothing and clothing accessories stores (up 2.2 percent) and miscellaneous retailers (up 3.8 percent).

Home Sales and Building Permits

Existing home sales in Maryland rose 15 percent over the year, up from 9 percent in the previous month. Nationally, existing home sales climbed by 20 percent. Permits for new residential units were down 20 percent in Maryland but rose 11 percent for the U.S.

Other Industries

The growth in employment for professional and business services slowed to 1.6 percent in June, down from 2 percent in May. This sector added nearly 6,000 jobs in June over the year. The U.S. job growth rate for professional and business services continues to outpace the state, up 3.2 percent. Other services were up 0.9 percent in Maryland between June 2003 and June 2004, while the U.S. managed a 0.5 percent increase in this sector.

The state's information sector lost about 2 percent of its job base in June. Nationally, the information sector was down 0.4 percent.

Employment in the state's government sector was up 0.2 percent in June. State and federal government jobs were both down about 1 percent from a year ago. Employment at the local level was up 1.5 percent, continuing to offset the losses at the state and federal levels.

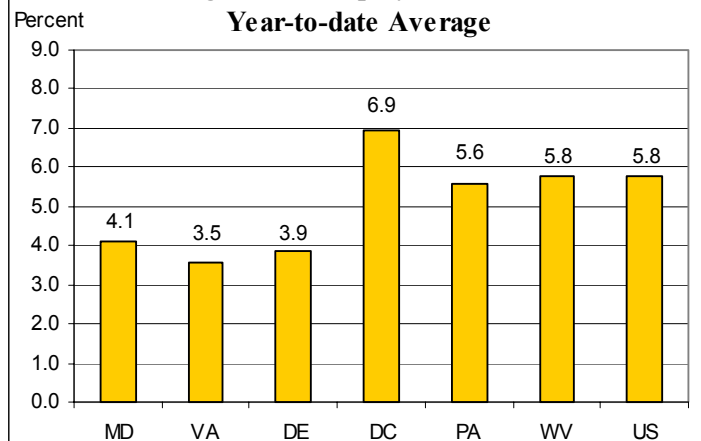
Manufacturing

Maryland's manufacturing industry lost nearly 3 percent of its jobs base in June. However, the computer and electronic product sector bucked the trend with an increase of 2.4 percent — an addition of 600 jobs. Nationally, the manufacturing industry appears to be stabilizing, with job losses slowing to 0.8 percent. Industry earnings and hours worked have generally been increasing from a year ago. Average weekly earnings in Maryland's manufacturing industries rose 6.6 percent in June and nearly 4 percent for the U.S. Average weekly hours were down 0.7 percent in Maryland — the first decline in over six months — but were up 1.2 percent for the nation.

Percent Change in Jobs June 2003 - June 2004

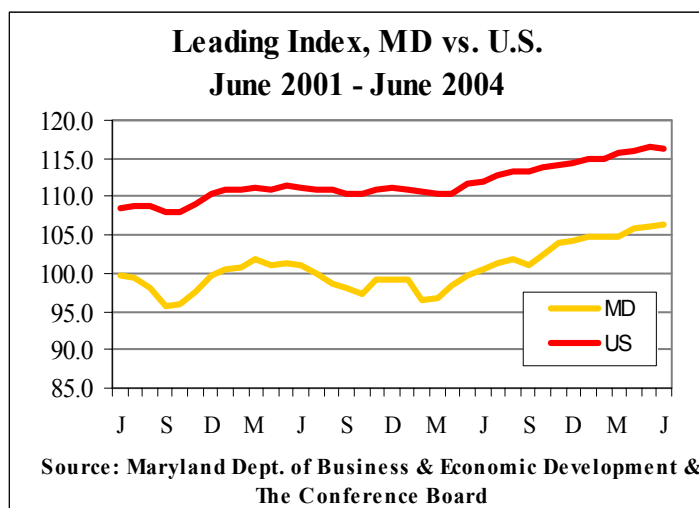
	MD	U.S.
Leisure and Hospitality	5.2	2.1
Construction, Mining, Natural Resources	4.6	2.9
Education and Health Services	2.2	1.9
Health Care and Social Assistance	2.1	2.0
Financial Activities	1.3	0.9
Professional and Business Services	1.6	3.2
Trade, Transportation and Utilities	0.6	1.1
Retail	0.9	1.2
Information	-2.2	-0.4
Manufacturing	-2.9	-0.8
Other Services	0.9	0.5
Government	0.2	-0.3
Total	1.4	1.1

Regional Unemployment Rates Year-to-date Average

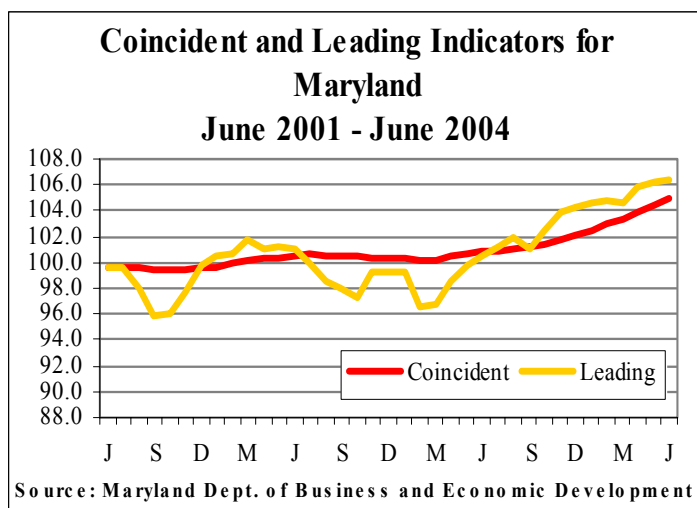


Maryland Leading and Coincident Indices

The *Maryland index of leading indicators* provides an outlook for the economy over the next six to nine months. The index stood at 106.5 in June, edging up slightly from the previous month and up by 6 percent from a year ago. A majority of the Maryland components contributed to the positive movement in the indicator, with permits for new residential units yielding the largest gain. In contrast, only one of the three national components – consumer confidence – contributed to a positive impact. In June the U.S. leading index was down 0.2 percent from the previous month, but the indicator was up by nearly 4 percent from a year ago. Changes from a year ago have slowed recently, both nationally and for the state. However, the overall upward trend in the leading indicators provides a positive signal that growth is expected to continue in the months ahead.



The coincident index provides a reading on the state of current economic conditions in Maryland and is used as a tool to track the performance of the economy. The revised *coincident index* stood at 105.0 in June, up from 104.5 in May. The increase in seasonally adjusted employment and the consumer confidence index both contributed to the positive movement in the indicator. The seasonally adjusted unemployment rate was unchanged from the previous month at 3.9 percent in June. The state index was up by 4 percent from a year ago. The increase from a year ago has improved significantly since the latter part of last year. In June, the U.S. coincident indicator was up by 0.1 from the previous month and rose by 2.8 percent from the same period a year ago.



Labor Force

Maryland's employment by place of residence continues to outpace the growth in the labor force, contributing to the decline in the unemployment rate over the year. The state's labor force continues to grow faster than the U.S. labor force.

Initial claims for unemployment insurance (UI) were down 16 percent between June 2003 and June 2004. UI claims for the nation were down 15 percent over the year. The *Baltimore Sun's* help-wanted counts fell 22 percent from the same period a year ago. Temporary cash assistance (TCA) caseload declined by 3 percent between June 2003 and June 2004.

Labor Market Trends (Percent Change, June 2003 - June 2004)

	MD	U.S.
Growth of Civilian Labor Force	1.4	0.2
Employment by Place of Residence	2.0	1.0
Temporary Cash Assistance – Caseload	-2.9	–
Change in Initial UI Claims	-16.4	-15.1
Help-wanted Counts	-21.8	–
Unemployment Rate (current month, %)	4.2	5.8

FOCUS: National Economy

Despite recent economic data that point to a weakening economy, many analysts expect economic growth to improve in the second half of the year. Preliminary data indicate that the real gross domestic product (GDP) — a widely followed measure of overall economic activity — increased at a much slower than expected annual rate of 3 percent in the second quarter of this year, down from a revised gain of 4.5 percent in the first quarter. Consumer spending was the main reason for the slowdown in GDP, rising at an annual rate of only 1 percent in the second quarter compared to 4.1 percent in the first quarter. The recent lower-than-expected employment report also pointed to weakness in the nation's labor market, with the number of net new jobs rising by only 32,000 in July. In addition, employment gains in May and June were revised downward.

The expected improvement in economic activity for the second half of this year, however, could be at risk as a result of a number of factors. Many analysts are projecting that oil prices will recede from their current high of more than \$40 a barrel — which is up over 30 percent from a year ago. If prices do not fall or climb higher, it would add to inflationary pressures and continue to sap strength from consumer spending. Moreover, the potential for shocks to the economy — including concerns about terrorism — may contribute to delaying corporate investment, a component that has contributed to growth in GDP. Businesses could also put hiring plans on hold. The stock market, possibly sensitive to these uncertainties, is down year-to-date. The S&P 500 index de-

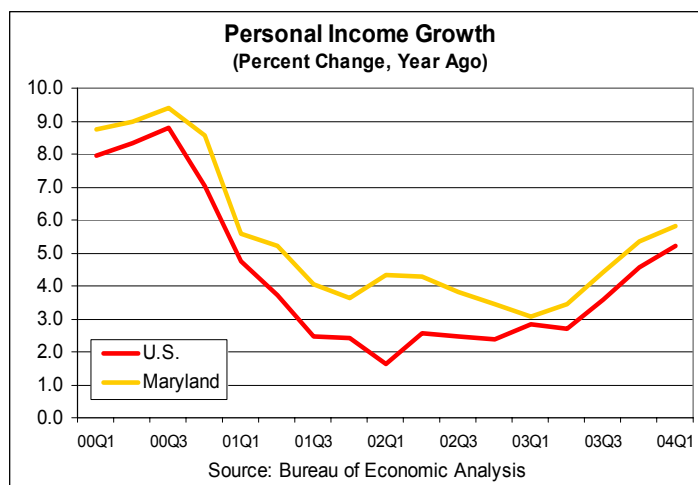
clined about 3 percent since the beginning of this year as of early August.

For their part, the Federal Reserve raised short-term interest rates for the second time this year (up to 1.5 percent from 1.25 percent) at its August 10 meeting. The statement issued by the Fed indicates that while higher energy prices have hurt the economy, the nation should see a return to a stronger pace of growth. Many analysts expected the Fed to raise interest rates to defuse concerns about the health the economy.

Thus, the recent weakness in the economy is perceived as being temporary. Retail sales rebounded in July following a disappointing month in June. In addition, June sales were revised upward, cutting the previous rate of decrease in half; total sales declined by 0.5 percent, instead of the 1.1 percent drop previously reported. In addition, some analysts contend that the weak employment report for July may be due in part to seasonal adjustment factors. These analysts point out that the not seasonally adjusted data for July show a gain of about 1.3 percent over the year, rather than the 1.1 percent increase based on the seasonally adjusted data. Using the slightly faster growth rate indicates that employment would have risen by over 210,000 jobs in July — much closer to the forecast of many analysts. Although estimates of GDP growth for the year have been revised downward, analysts still expect the U.S. economy to expand by more than 4 percent in 2004, up from 3 percent in 2003.

Other Economic Indicators

- The Maryland stock index increased by nearly 28 percent from a year ago, while the national index rose 17 percent during the past year.
- New auto registrations were up nearly 11 percent in Maryland, but were down 1.2 percent for the U.S.
- Passenger volume at BWI airport was up 5 percent between June 2003 and June 2004. Cargo volume was also up nearly 21 percent over the same period.
- The growth in personal income continued to improve in the first quarter of 2004, up nearly 6 percent in Maryland and roughly 5 percent for the U.S. from the same period a year ago. More recent data at the national level indicate that personal income was up about 5.6 percent in the second quarter of this year.



Selected Monthly Economic Indicators

	Maryland					U.S.				
			Percent Change		Percent Change			Percent Change		Percent Change
	Jun 2004	May 2004	From Last Month	Jun 2003	From Last Year	Jun 2004	May 2004	From Last Month	Jun 2003	From Last Year
Selected Indicators										
Labor Market										
Labor Force (U.S. in Thousands)	2,985,586	2,940,341	1.5	2,944,343	1.4	148,478	146,659	1.2	148,117	0.2
Employment (U.S. in Thousands)	2,861,304	2,829,511	1.1	2,804,297	2.0	139,861	138,867	0.7	138,468	1.0
Unemployment Rate	4.2	3.8	10.5	4.8	-12.5	5.8	5.3	9.4	6.5	-10.8
Sun Help-Wanted Counts, Baltimore MSA	13,093	11,064	18.3	16,751	-21.8					
Initial Claims for Unemployment Insurance	19,301	14,205	35.9	23,082	-16.4	1,446,894	1,205,931	20.0	1,704,609	-15.1
TCA Caseload	28,091	28,166	-0.3	28,918	-2.9					
TCA Cases Closed	2,652	2,829	-6.3	2,781	-4.6					
Jobs and Sectors (Jobs in Thousands)										
Total Non-Agricultural Employment	2,553.3	2,535.7	0.7	2,518.3	1.4	132,325	131,881	0.3	130,830	1.1
Construction, Mining & Natural Resources	179.5	175.9	2.0	171.6	4.6	7,740	7,552	2.5	7,520	2.9
Manufacturing	145.2	145.7	-0.3	149.5	-2.9	14,488	14,392	0.7	14,604	-0.8
Trade, Transportation, Utilities	467.3	462.0	1.1	464.5	0.6	25,564	25,407	0.6	25,285	1.1
Information	49.9	50.1	-0.4	51.0	-2.2	3,193	3,180	0.4	3,207	-0.4
Financial Activities	159.9	158.3	1.0	157.8	1.3	8,117	8,038	1.0	8,048	0.9
Professional & Business Services	373.0	371.2	0.5	367.1	1.6	16,614	16,423	1.2	16,102	3.2
Education & Health Services	347.3	347.8	-0.1	339.7	2.2	16,716	16,958	-1.4	16,398	1.9
Leisure & Hospitality	246.6	234.0	5.4	234.5	5.2	12,893	12,546	2.8	12,633	2.1
Other Services	119.7	117.9	1.5	118.6	0.9	5,478	5,424	1.0	5,453	0.5
Government	464.9	472.8	-1.7	464.0	0.2	21,522	21,961	-2.0	21,580	-0.3
Average Weekly Earnings (\$)	669.83	662.58	1.1	628.37	6.6	659.69	659.66	0.0	635.45	3.8
Average Weekly Hours	39.8	40.5	-1.7	40.1	-0.7	41.0	41.1	-0.2	40.5	1.2
Business and Consumer Markets										
BWI Cargo (Metric Tons)	20,518	19,951	2.8	16,984	20.8					
BWI Passengers (Millions)	1.92	1.87	2.7	1.83	5.0					
Electric Meters Installed, Commercial ¹	56	78	-28.2	170	-67.1					
Electric Meters Installed, Residential ¹	1,068	842	26.8	1,216	-12.2					
Electricity Sales, Commercial (Millions of MWh) ¹	1.50	1.27	18.6	1.56	-3.6					
Electricity Sales, Residential (Millions of MWh) ¹	1.06	1.26	-16.1	1.12	-4.9					
Existing Home Sales (U.S. in Thousands)	10,589	8,714	21.5	9,202	15.1	719	617	16.5	597	20.4
New Auto Registration (U.S. seasonally adjusted)	42,758	37,819	13.1	38,573	10.8	1,355,316	1,392,509	-2.7	1,371,234	-1.2
New Residential Permits Authorized	2,825	2,065	36.8	3,548	-20.4	190,997	184,844	3.3	172,066	11.0
Indexes										
Leading Index	106.5	106.2	0.3	100.4	6.0	116.2	116.4	-0.2	112.0	3.8
Help-Wanted Index	58.4	49.4	18.3	74.8	-21.8	38	39	-2.6	38	0.0
CPI	N/A	118.9	N/A	N/A	N/A	189.7	189.1	0.3	183.7	3.3
Stock Index	272.9	268.9	1.5	214.0	27.6	1,140.8	1,120.6	1.8	974.5	17.1
Tourism										
Hotel/ Motel Occupancy Rate (%)	76.3	72.4	5.4	73.1	4.4					
State Welcome Center Visitors	226,484	224,286	1.0	218,590	3.6					
Amusement & Admission Tax (Millions of Dollars)	5.15	4.53	13.6	5.66	-9.1					
Hotel /Motel Sales Tax (Millions of Dollars)	5.04	4.03	25.2	4.32	16.7					

Notes:

¹ BGE data as of March 2004.



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